

MEDIA SENTIMENT AND RISK EXPOSURE: COMPARATIVE INSIGHTS FROM ISLAMIC AND CONVENTIONAL BANKS IN INDONESIA

¹Ahmad Syathiri, ²Suhel, ³Yos Karimudin

¹ahmadsyatiri@fe.unsri.ac.id

^{1,2,3}Universitas Sriwijaya

Jl Raya Palembang-Prabumulih KM 32, Inderalaya, Sumatera Selatan, Indonesia

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Abstract

This study examines how economic and political media sentiment influences risk mitigation policies in Islamic and conventional banks in Indonesia. Using monthly banking data from 2012 to 2023 and content analysis of online news, the study applies regression analysis to assess the effects of media sentiment on capital adequacy, loan distribution, and loan loss reserves. The findings show that economic media sentiment significantly affects banks' capital strength, lending behavior, and provisioning policies, whereas political media sentiment has no significant influence on risk management decisions. The results indicate that banks respond more strongly to economic narratives than political discourse when developing risk and credit strategies. This study contributes to the banking and finance literature by providing comparative evidence from a dual-banking system and highlighting the importance of incorporating economic media sentiment into risk management and financial stability frameworks.

Keywords: capital adequacy ratio; loan; banking risk; media sentiment

INTRODUCTION

The expansion of the banking industry creates competition in the allocation of credit funds. As a result, in acquiring and distributing funds, banks vie to attract a large number of clients (Canta et al., 2023). This competitive phenomenon is clearly reflected in Indonesia, where national banks are aggressively competing for third-party funds (DPK) to offset double-digit credit growth in the range of 10% to 12% year-over-year. Furthermore, the rise in demand for bank money by businesses is greatly influenced by the improvement of a nation's economic situation, as seen in higher governmental expenditure and significant infrastructure development (Zhang & Dai, 2023). In addition, government support in the form of cash assistance, tax, and banking liquidity assistance helps maintain the country's economic stability, which impacts bank trust in the distribution of credit funds (Degryse & Huylebroek, 2023). However, an excessive increase in the number of loans without proper planning raises the risk of non-performing loans (Canta et al., 2023). In Indonesia, this risk is effectively mitigated through banking prudential principles and oversight by the Financial Services Authority of the Republic of Indonesia (OJK), allowing the national gross NPL ratio within a stable target range of 2.2% to 2.4% with the net NPL ratio below 1%.

Islamic banks exhibit a higher credit risk than their conventional counterparts, according to a comparison of the levels of credit risk or non-performing loans that are held by Islamic banks and conventional banks (Kabir et al., 2015). Throughout the global financial crisis, Islamic banks, on the

other hand, displayed a lower level of financial risk than conventional banks, but throughout the aftermath of the crisis, financial risk increased. The credit risk that was linked with Islamic banks was higher than that of normal banks for the entirety of the COVID-19 epidemic (Dibooglu et al., 2022; Syathiri et al., 2020).

Many factors contribute to high non-performing loans, such as macroeconomic variables that affect the distribution of credit funds (Juelsrud & Larsen, 2023). In this context, macroeconomic uncertainty motivates company management to revise its financial planning (Cai, 2023; Kitagawa, 2021). As a result, these conditions encourage banks to reduce the distribution of credit funds (Juelsrud & Larsen, 2023). Furthermore, unstable macroeconomic conditions significantly impact the business climate and systemic risk (Baek et al., 2024; Klayme et al., 2023; Yang et al., 2024). Consequently, economic instability and a lethargic business environment significantly influence strategies for allocating bank resources (Juelsrud & Larsen, 2023; Le et al., 2022), as a nation's economic policies affect bank stability (Danisman & Tarazi, 2024). Ultimately, public trust in banking performance is undermined due to bank instability (Chernykh et al., 2023).

The media are essential in conveying information on a nation's economic stability. In this sense, the media function as a source of information for the public, encompassing consumers and business experts, to aid in decision-making. Furthermore, emotional coverage by the media can influence both products and the financial market (Jia et al., 2023; Rogmann et al., 2024; Timur et al., 2024). As a consequence, this situation will prompt banks to reduce business credit loans since media sentiment and extensive reporting related to a country's economic conditions and business climate can also affect the behavior of debtors and creditors (Jia et al., 2023). In addition, negative media sentiment can trigger reactions among depositors, impacting banks' systemic risk (Fang et al., 2022). Consequently, this problem encourages companies to manage financial risks from negative media sentiment (T. Chen et al., 2024; Du et al., 2022; Timur et al., 2024).

Favorable political stability promotes robust economic growth, as evidenced by an increase in investment. In this context, the relationship between political and economic stability is mutually reinforcing. Moreover, a conducive political environment can stimulate robust economic growth (Singha & Singh, 2022), which gives banks more confidence to give out loans. Additionally, in certain instances, general elections can lead to an increase in bank loans (Fungacova et al., 2023). Furthermore, political connections significantly affect the lending decisions made by banks (Cai, 2023). Thus, it is crucial for banks to proactively gather information about corporate clients eligible for funding, particularly regarding their financial performance. Consequently, companies that receive positive media sentiment typically demonstrate stronger performance (Gao et al., 2023).

The types of risks that commonly occur in banking include credit risk, liquidity risk (W. Da Chen et al., 2021; Leung et al., 2015; Matabaro Borauzima & Muller, 2022; Qudah, 2021), and the ratio of bank defaults to other parties, which is measured by the z-score (Jabari & Muhamad, 2022; Vo et al., 2022). In this context, financial risk inevitably arises within the financial services industry; however, the impact of this risk can be mitigated through various risk control policies, ensuring that it does not interfere with the company's performance. Therefore, banks can strategically plan their financial risk control in areas such as capital strengthening (Alsharif, 2021; Harkati et al., 2020; Jiang et al., 2023; Mohd Isa & Abdul Rashid, 2018; Naouar et al., 2024), provisions for impairment losses (W. Da Chen et al., 2021; Degryse & Huylebroek, 2023; Riahi, 2019), and corporate earnings management (T. Chen et al., 2024; Vo et al., 2022; Zainuldin & Lui, 2020).

Indonesia provides a unique and compelling context for this comparative analysis. As the world's largest Muslim-majority country, Indonesia operates a robust and highly regulated dual-banking system where rapidly expanding Islamic banks coexist and compete directly with deeply established conventional banks (Setiawan, 2023; Trinugroho et al., 2021). Unlike in jurisdictions where Islamic banking either holds a negligible market share (8%) or entirely dominates the financial system (OJK, 2025), Indonesia's banking sector offers a balanced laboratory to observe how two fundamentally different operational models navigate identical external informational pressures

(Mawardi et al., 2024; Muchtar & Amalia, 2025). The coexistence of shariah-compliant institutions, which prioritize asset-backed transactions and risk-sharing, alongside traditional interest-based banks allow this study to isolate the effect of banking structure on risk management behavior in an emerging market characterized by dynamic media environments.

The increasing role of media sentiment in shaping public perception of national economic and political conditions raises critical concerns for the financial sector. Banks, both Islamic and conventional, are highly sensitive to shifts in economic and political narratives, as these can influence risk assessments and strategic decision-making processes. A key issue lies in determining whether media sentiment significantly affects the risk mitigation policies adopted by these institutions. This becomes particularly relevant when considering fundamental indicators of financial stability, including the capital adequacy ratio, credit or financing portfolios, and credit loss reserve funds. Previous research has predominantly focused on the impact of macroeconomic indicators, regulatory frameworks, and market dynamics on banking performance, with insufficient emphasis on the influence of media sentiment as an external element. Furthermore, comparative analyses between Islamic and conventional banks in this context remain scarce, creating a gap in understanding how different banking models respond to informational pressures from media narratives. Addressing this gap is essential, as it provides deeper insights into the interplay between external information flows and the resilience of banking institutions in uncertain environments.

METHODS

This study adopts a quantitative research design using regression analysis to examine the relationship between media sentiment and banking risk mitigation policies. The analysis focuses on Islamic and conventional banks in Indonesia over the period 2012–2023. The study utilizes monthly financial reports of Islamic and conventional banks obtained from OJK. Media sentiment data are derived from news articles published by national online media outlets during the same period. This study's independent variables were economic and national political media sentiment, as examined in prior studies (Basak et al. 2023; Chen et al. 2024; Du et al. 2022; Fang et al. 2022; Li et al. 2023; Rogmann et al. 2024; Wang et al. 2022). The independent variables consist of media sentiment on national economic issues (*eco_issues*) and national political issues (*pol_issues*). Sentiment is measured using a categorical scoring approach, where -1 represents negative sentiment, 0 neutral sentiment, and 1 positive sentiment. The dependent variables included the capital adequacy ratio (CAR) (Alsharif, 2021; Harkati et al., 2020; Jiang et al., 2023; Mohd Isa & Abdul Rashid, 2018; Naouar et al., 2024), loan disbursement (*ln_loan*) (Abbas & Ali, 2022; Albaity et al., 2022; Syathiri et al., 2020), and loan loss provisions (*ln_llr*) (W. Da Chen et al., 2021; Degryse & Huylebroek, 2023; Riahi, 2019).

To test the proposed relationships, the following regression models are estimated:

$$CAR = \beta_0 + \beta_1 \cdot eco_issues + \beta_2 \cdot pol_issues + \varepsilon \dots\dots\dots(1)$$

$$ln_loan = \beta_0 + \beta_1 \cdot eco_issues + \beta_2 \cdot pol_issues + \varepsilon \dots\dots\dots(2)$$

$$ln_llr = \beta_0 + \beta_1 \cdot eco_issues + \beta_2 \cdot pol_issues + \varepsilon \dots\dots\dots(3)$$

RESULTS

This part shows the real-world results, starting with a descriptive analysis that lists the main features of the dataset and then moving on to regression analysis, which looks at how the variables in question are related to each other.

As a preliminary step in the analysis, Table 1 presents the descriptive distribution of sentiments related to national economic issues. The table details the frequency, percentage, and cumulative

percentage of news reports categorized as either positive or negative, thereby establishing an initial empirical baseline for examining the role of economic sentiment in subsequent quantitative analysis.

Table 1. Description of National Economic Issues Sentiment

Eco_Issue Sentiment	Frequency	Percent	Cumulative
Negative Sentiment	49	34.03	34.04
Positive Sentiment	95	65.97	100
Total	144	100	

Table 1 displays the sentiment distribution related to national economic issues, based on the frequency of media coverage. Of the 144 news reports analyzed, 95 items (65.97%) conveyed positive sentiment, while 49 items (34.03%) expressed negative sentiment. This distribution suggests that economic reporting is generally optimistic, with media narratives largely emphasizing progress, recovery, or policy achievements. Although a portion of the coverage highlights ongoing challenges, the predominance of positive sentiment indicates a prevailing atmosphere of hope and public confidence in economic improvement.

Expanding the sentiment analysis to the political domain, Table 2 presents the descriptive distribution of media sentiment on national political issues. The table reports the frequency, percentage, and cumulative percentage of observations classified as either positive or negative. This data offers a complementary perspective to the economic sentiment findings, enabling a more comprehensive understanding of how different dimensions of national discourse are portrayed in the media. By contrasting economic optimism with political skepticism (as indicated in prior analysis), the sentiment structure outlined in Table 2 contributes to a nuanced interpretation of public information flows and their potential impact on financial perceptions.

Table 2. Description of Sentiment on National Political Issues

Pol_Issue Sentiment	Frequency	Percent	Cumulative
Negative Sentiment	83	57.64	5.64
Positive Sentiment	61	42.36	100
Total	144	100	

Table 2 presents an overview of media sentiment related to national political issues, based on the classification of 144 news articles. Among these, 83 items (57.64%) express negative sentiment, while the remaining 61 items (42.36%) reflect positive sentiment. The predominance of negative coverage suggests that political news in the mass media tends to emphasize criticism or dissatisfaction with current political developments. Although positive reporting is present, its lesser share may shape a public perception that is more skeptical or uncertain about the prevailing political environment.

Table 3 presents descriptive statistics for key financial indicators of Islamic banks, offering a foundational overview of five variables: capital adequacy ratio (CAR), natural logarithm of loans (Ln_Loan), loan ratio, natural logarithm of loan loss reserves (Ln_LLRR), and the loan loss reserve (LLR) ratio. For each of these, the table includes the number of observations, mean values, standard deviations, and the minimum–maximum range. These descriptive measures provide a preliminary understanding of the data distribution and serve as a basis for further inferential analysis, particularly in investigating how media sentiment interacts with bank-level financial behavior.

Table 3. Description of Islamic Bank Finance

Variable	Obs	Mean	Std. Dev	Min	Max
CAR	144	18.84	3.94	12.23	26.28
Ln_Loan	144	12.51	0.42	11.52	13.25
Loan_Ratio	144	85.20	9.66	68.97	104.83
Ln_LLRR	144	8.94	0.56	7.86	9.96
LLRR_Ratio	144	0.02	0.00	0.021	0.04

Source: Primary data. Authors' estimation

A closer examination of three core indicators (CAR, loan ratio, and LLR ratio) reveals important insights into the financial health of Islamic banks. The average CAR stands at 18.84 with a standard deviation of 3.94, indicating that most institutions maintain a relatively strong capital position, capable of withstanding financial stress. The loan ratio averages 85.20, accompanied by a higher degree of variability ($SD = 9.66$), suggesting that a significant portion of assets is channeled into financing activities, consistent with a proactive lending strategy. In contrast, the LLR Ratio is strikingly low, with an average of only 0.02 and negligible dispersion, highlighting a minimal level of provisioning for potential credit losses. Although the capital structure appears sound, the insufficient reserve coverage poses a vulnerability should loan defaults rise. These findings underscore the importance of enhanced risk oversight and conservative provisioning practices to safeguard long-term financial stability within Islamic banking institutions.

Table 4 shows the descriptive statistics for conventional banks, including additional variables such as Ln_Loan and Ln_LLRR, alongside CAR, loan ratio, and LLR ratio. These statistics offer a foundational comparison with Islamic banks, highlighting structural and operational differences in capitalization, lending behavior, and reserve management. Moreover, they provide initial insights that inform subsequent inferential analyses and underscore the relevance of banking models in shaping financial profiles.

Table 4. Description of Conventional Bank Finance

Variable	Obs	Mean	Std. Dev	Min	Max
CAR	135	22.19	2.66	17.28	27.85
Ln_Loan	135	15.30	0.30	14.60	15.78
Loan_Ratio	135	87.40	4.89	77.12	96.18
Ln_LLRR	135	11.91	0.58	11.08	12.80
LLRR_Ratio	135	3.57	1.22	2.22	6.08

Table 4 also provides the summary statistics for three key financial indicators (CAR, loan ratio, and LLR ratio), providing insights into the financial condition of conventional banks. The average CAR stands at 22.19, with a standard deviation of 2.66, indicating that these institutions maintain a capital buffer well above regulatory requirements. This is further reflected in the observed range, with values spanning from 17.28 to 27.85. The loan ratio averages 87.40, accompanied by a standard deviation of 4.89, suggesting a substantial portion of available funds is actively deployed for lending, consistent with an aggressive credit expansion strategy. Meanwhile, the LLR ratio records an average of 3.57, with a variation between 2.22 and 6.08, signaling that reserves set aside for potential credit losses are maintained at a reasonably prudent level. Taken together, these indicators reflect a solid capital position and robust lending activity, although continued monitoring of reserve adequacy remains essential to ensure alignment with credit risk exposure.

When comparing the descriptive profiles of Islamic and conventional banks (Tables 3 and 4), distinct structural characteristics emerge. Conventional banks report a higher average CAR, implying stronger capitalization and potentially more conservative capital management. In contrast, Islamic banks exhibit a higher loan ratio, reflecting a greater emphasis on financing activities relative to their

asset base. Notably, the LLR ratio is also higher among conventional banks, indicating a more substantial buffer for anticipated credit losses. These differences in financial composition underscore the divergent operational philosophies and regulatory frameworks that define each banking model, which in turn may shape their respective approaches to risk management and financial resilience.

Table 5 summarizes the regression results for Islamic banks, examining the influence of media sentiment on national economic and political issues in relation to key financial indicators. The analysis considers three dependent variables: CAR, Ln_Loan, and Ln_LLRL. For each variable, the table details the estimated coefficients (β) and their corresponding significance levels (p -values), providing empirical evidence on the extent to which sentiment factors are associated with the financial performance and risk management behavior of Islamic banking institutions.

Table 5. Regression Test Results for Islamic Banks

Independent Variable	Dependent Variable			Information
	CAR	Ln_Loan	Ln_LLRL	
	b/p	b/p	b/p	
eco_issues	0.429* (0.08)	0.099** (0.01)	0.139** (0.00)	Significant
pol_issues	-0.235 (0.48)	-0.021 (0.55)	-0.027 (0.57)	Not significant
Constant	18.611*** (0.00)	12.479*** (0.00)	8.897*** (0.00)	

The regression analysis results presented in Table 5 demonstrate that economic sentiment exerts a statistically significant influence on the financial performance of banking institutions, particularly with respect to CAR, Ln_Loan, and Ln_LLRL. Specifically, the economic sentiment variable shows a positive association with CAR ($\beta = 0.429$, $p < 0.10$), suggesting that favorable economic narratives contribute to improved capital adequacy. Additionally, economic issues are significantly linked to loan expansion ($\beta = 0.099$, $p < 0.05$) and reserve provisioning ($\beta = 0.139$, $p < 0.01$), indicating that institutions tend to increase both credit distribution and buffer reserves when economic conditions are perceived positively. In contrast, political sentiment does not exhibit any statistically significant effect on the dependent variables, as reflected by high p -values, implying a limited role of political narratives in shaping institutional financial outcomes. These results underscore the strategic importance of economic considerations in driving financial decisions related to capital management, credit allocation, and risk provisioning.

Table 6 presents the regression estimates that assess how media sentiment on national economic and political issues influences key financial indicators for conventional banks. The dependent variables, namely CAR, Ln_Loan, and Ln_LLRL, are analyzed in relation to sentiment-based explanatory variables. The table displays the estimated beta coefficients along with their corresponding significance levels (p -values), offering a more detailed perspective on how conventional banks adjust their financial performance and risk management practices in response to shifts in media sentiment. These findings contribute to a deeper understanding of how external information signals affect capital planning, lending activity, and reserve provisioning within the conventional banking framework.

Table 6. Results of the Regression Test for Conventional Banks

Independent Variable	Dependent Variable		
	CAR	Ln_Loan	Ln_LLRR
	b/p	b/p	b/p
Eco_Issues	1.017*** (0.00)	0.088** (0.00)	0.168** (0.00)
Pol_Issues	-0.017 (0.94)	-0.008 (0.77)	-0.033 (0.50)
Constant	21.837*** (0.00)	15.269*** (0.00)	11.853*** (0.00)

DISCUSSION

The empirical results of this study offer significant insights into the influence of media sentiment on the financial conduct of banks. The findings indicate that economic media mood substantially affects the capital adequacy, loan growth, and loan loss reserves of Islamic banks, but political sentiment seems to exert no statistically significant influence. Conversely, traditional banks demonstrate a distinct pattern, influenced by economic and political factors that impact their financial metrics to differing degrees. The results indicate that Islamic and conventional banks react differently to external informational constraints, highlighting their unique governance structures, operational models, and stakeholder expectations. These findings build on earlier studies about how media views and financial markets interact, and they also highlight the different ways banking systems manage risks based on their unique structures and rules.

Statistical findings indicate that the media mood surrounding national economic issues influences policies on capital adequacy ratio, financing funds, and loan loss reserves. This outcome is consistent with other studies stressing that media sentiment can influence company management policies (T. Chen et al., 2024; Jia et al., 2023). Information indicating a stable economic environment provides valuable signals for risk analysis, encouraging banks to align their financial strategies with macroeconomic conditions. In this regard, companies rely on country-level economic indicators to effectively manage risks (Saad & Ayuniyyah, 2026; Thach & Huy, 2021). More accurate and timely information about economic trends, such as growth, inflation, and the development of emerging sectors, enables banks to design more prudent financing strategies and make better decisions in evaluating loan eligibility (Le et al., 2022).

A positive economic context fosters greater confidence in both Islamic and conventional banks to expand financing activities and increase fund distribution (Aldasoro et al., 2023; Juelsrud & Larsen, 2023; Le et al., 2022). Moreover, favorable media coverage can stimulate demand for credit funds (Yang et al., 2024), which in turn allows banks to enhance their lending capacity (Du et al., 2022; Jia et al., 2023). This mechanism reflects a reinforcing cycle: positive sentiment enhances public confidence, which boosts demand for loans, thereby motivating banks to expand credit. Conversely, the spread of negative economic information can generate precautionary responses among customers, prompting lenders to reduce loan applications and even withdraw existing credit lines (Fang et al., 2022).

Taken together, these dynamics highlight the dual role of media sentiment, both as an informational signal that guides banks' risk evaluation and as a behavioral driver that shapes customer demand. Consequently, the ability of banks to respond proactively to shifts in economic sentiment is crucial for minimizing concentration risk and ensuring balanced credit allocation across sectors. This underscores the importance of integrating sentiment analysis into banking risk management frameworks, not only to anticipate macroeconomic fluctuations but also to capture shifts in public

perception that directly influence lending activities. This interpretation aligns with evidence that media sentiment can shape corporate policy choices (T. Chen et al., 2024; Jia et al., 2023) and supports the view that firms incorporate country-level economic conditions into risk management (Saad & Ayuniyyah, 2026; Thach & Huy, 2021), using timely information on growth, inflation, and emerging sectors to enhance screening and allocation (Le et al., 2022).

Building on this mechanism, we explore the operational implications for balance sheet policies, particularly in the context of managing reserves and lending behavior. When economic conditions improve, banks often adopt a more assertive stance in adjusting reserve ratios, either to meet prudential regulatory requirements or to reflect updated internal risk assessments. In this regard, higher loan loss reserves serve as a meaningful buffer against adverse shocks, such as sudden downturns, thereby reducing the likelihood that liquidity stress (e.g. withdrawal pressures) escalates into default risk and broader financial instability (Fang et al. 2022). Maintaining ample reserves allows banks to sustain steady operations throughout economic cycles, reinforcing institutional resilience.

This prudential approach is especially aligned with Islamic banks' emphasis on long-term sustainability and cautious risk management. In such contexts, proactively increasing reserves becomes a critical component of broader strategies aimed at ensuring operational continuity and mitigating anticipated future losses. At the same time, favorable economic sentiment tends to boost both the willingness of banks to extend financing (Aldasoro et al., 2023; Juelsrud & Larsen, 2023; Le et al., 2022), and the demand for credit among customers (Yang et al., 2024). This mutual reinforcement creates a positive feedback loop that can amplify lending volumes during growth phases (Du et al., 2022; Li et al., 2023). Conversely, when negative sentiment prevails, it dampens credit demand and induces precautionary deleveraging among borrowers (Fang et al., 2022), underscoring the importance of maintaining diversified sectoral lending to limit concentration risk and preserve portfolio stability.

In contrast to these economically anchored channels, political sentiment appears less transmissive in our setting. Specifically, the media sentiment variable on national political issues does not influence all dependent variables for Islamic and conventional banks in this study, a result that contrasts with findings reported by Fungacova et al. (2023) and Cai (2023), who document that media opinions on political matters can affect bank and customer behavior around credit policies. Several factors may account for this divergence. Banks typically prioritize long-horizon fundamentals, growth prospects, inflation dynamics, and sectoral performance, over short-lived political noise; thus, political sentiment may be treated as a transient disturbance unless it is accompanied by concrete policy changes with balance sheet implications. In addition, stringent stability-oriented regulations constrain managerial discretion, steering institutions to comply with prudential targets rather than chase shifts in public mood. Differences in institutional architecture, including governance arrangements and, for Islamic banks, shariah-aligned oversight, may further dampen the pass-through of political news to day-to-day credit and provisioning decisions. These considerations help reconcile our results with prior studies by suggesting that the transmission of political sentiment is context-dependent. It is stronger when political news signals durable policy shifts, but weaker when banks are guided primarily by fundamentals and regulatory commitments.

CONCLUSIONS

This study has shown that economic media sentiment plays a significant role in shaping risk mitigation policies in both Islamic and conventional banks in Indonesia, particularly in relation to credit distribution and loan loss reserve management, whereas political media sentiment does not significantly influence banks' risk-related decisions. These findings indicate that banks rely more heavily on economic information than political discourse when formulating credit and provisioning strategies, highlighting the importance of economic narratives in institutional risk assessment. The study contributes to literature by

extending media sentiment research beyond investor behavior and financial markets to the operational dimensions of banking risk management. It also advances knowledge by providing comparative evidence from Indonesia's dual-banking system, demonstrating that the transmission of media sentiment into banking decisions is influenced by differences in banking models. This research provides a new understanding of how economic media sentiment functions as an external informational signal in bank risk governance and offers a foundation for integrating sentiment-based indicators into future banking risk assessment frameworks, particularly in emerging economies with dual financial systems.

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